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No. 03-965

Supreme Court, U.S.
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In The
Supreme Court of the United States

LOS ANGELES NEWS SERVICE,

Petitioner,

v.

REUTERS TELEVISION INTERNATIONAL, LIMITED; VISNEWS INTERNATIONAL (USA), LIMITED; REUTERS AMERICA HOLDINGS, INC.; REUTERS AMERICA, INC.,

Respondents.

On A Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITIONER'S REPLY BRIEF

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TABLE OF CONTENTS

Page

I. *REUTERS IV* CREATES A PLAIN CONFLICT BETWEEN THE NINTH AND SECOND CIRCUITS BECAUSE THE SECOND CIRCUIT PERMITS THE RECOVERY OF ACTUAL DAMAGES RESULTING FROM THE FOREIGN EXPLOITATION OF DOMESTIC COPYRIGHT INFRINGEMENTS 2

A. In *Update Art*, the Second Circuit Confirmed the Availability of Actual Damages Arising from the Foreign Exploitation of Domestic Infringements 2

B. *Sheldon v. Metro-Goldwyn Pictures Corp.* Does Not Limit a Copyright Holder's Recovery to an Infringer's Profits From the Overseas Exploitation of a Work Infringed in the United States 6

II. *REUTERS IV* ALSO CONFLICTS WITH THE LAW OF THE SECOND AND SEVENTH CIRCUITS BY DENYING LANS A REASONABLE LICENSE FEE FOR RESPONDENTS' UNLAWFUL INFRINGEMENT OF ITS WORKS 7

III. THE AVAILABILITY OF EXTRATERRITORIAL DAMAGES ARISING FROM DOMESTIC INFRINGEMENTS INVOLVES AN ISSUE OF EXTRAORDINARY IMPORTANCE 8

CONCLUSION 10

TABLE OF AUTHORITIES

Page

CASES:

Davis v. The Gap, Inc., 246 F.3d 152 (2d Cir. 2001) 7

Deltak v. Advanced Systems, Inc., 767 F.2d 357 (7th Cir. 1985) 7

Los Angeles News Service v. Reuters Tel. Int'l, Ltd., 149 F.3d 987 (9th Cir. 1998) 1, 4

Los Angeles News Service v. Reuters Tel. Int'l, Ltd., 340 F.3d 926 (9th Cir. 2003) ..... *passim*

Reuters Tel. Int'l, Ltd. v. Los Angeles News Service, 525 U.S. 1141 (1999) 4

Rogers v. Koons, 960 F.2d 301 (2d Cir. 1992) 7

Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45 (2d Cir. 1939) 1, 6, 7

Update Art, Inc. v. Modiin Publishing, Ltd., 843 F.2d 67 (2d Cir. 1988) 1, 3, 4, 5, 6

STATUTES AND RULES:

17 U.S.C. § 504(b) 10

SECONDARY SOURCES:

Amanda Ripley, *Hollywood Robbery; How Does a Hit Movie Go From the Free Market to the Black Market? TIME Retraces the Trail*, Time Magazine, January 26, 2004 9

Bruce Orwall, *Piracy Prevention: Studios Halt DVD Giveaways*, The Wall Street Journal, October 1, 2003 9

TABLE OF AUTHORITIES – Continued

Page

Meg James & Anthony Kuhn, *'Potter' Plundered in Asia Movies*, L.A. Times, December 3, 2001 9

PETITIONER'S REPLY BRIEF

In the opinion below, the Ninth Circuit erroneously held that LANS is not entitled to recover actual damages flowing from the respondents' unauthorized exploitation abroad of copyrighted work they infringed in the United States. *Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 340 F.3d 926 (9th Cir. 2003) ("*Reuters IV*," App. 1-16). There is no question that prior to *Reuters IV*, such damages were recoverable in both the Ninth and Second Circuits. *See Los Angeles News Service v. Reuters Tel. Int'l, Ltd.*, 149 F.3d 987 (1998) ("*Reuters III*," App. at 35-55); *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988). *Reuters IV* therefore creates a critical conflict between the Ninth and Second Circuits and within the Ninth Circuit itself.

Anxious to manufacture consistency between the Ninth and Second Circuits with respect to this issue, respondents blatantly mischaracterize two Second Circuit opinions, *Update Art* and *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), and erroneously argue that those cases would also limit LANS' recovery to respondents' profits. Contrary to respondents' arguments, *Update Art* expressly confirms the availability of actual damages arising from the foreign exploitation of domestic infringements, and *Sheldon* does not address the issue at all, much less hold that such damages are not recoverable. Moreover, as discussed below, the contention that *Reuters IV* does not conflict with *Update Art* is contradicted by the position respondents took in their own Petition for a Writ of Certiorari to this Court following *Reuters III*. There is a plain conflict between *Reuters IV* and *Update Art*, and respondents' arguments to the contrary are incorrect and disingenuous.

Respondents also attempt to minimize the importance of the issue presented by mischaracterizing it as "a very specific question in the narrow subset of copyright law related to damages" (Brief of Respondents in Opposition ("Opp.") at 12), and by contending that "the issue in this case arises infrequently . . . ." Opp. at 2. *Reuters IV* does not just deprive LANS of a specific type of damages. Instead, it deprives all copyright holders of any meaningful protection from individuals or entities who would steal their works and transmit them abroad for further reproduction and exploitation. Modern technology has recently made such piracy easy, inexpensive and devastating to copyright holders, and LANS submits that it happens every day. Indeed, LANS' petition raises the single most important piracy issue of the new technology era, i.e., the domestic digital copying of copyrighted material that is then exploited throughout the world. The issue raised by LANS' petition truly requires resolution by this Court.

I. *REUTERS IV* CREATES A PLAIN CONFLICT BETWEEN THE NINTH AND SECOND CIRCUITS BECAUSE THE SECOND CIRCUIT PERMITS THE RECOVERY OF ACTUAL DAMAGES RESULTING FROM THE FOREIGN EXPLOITATION OF DOMESTIC COPYRIGHT INFRINGEMENTS

A. In *Update Art*, the Second Circuit Confirmed the Availability of Actual Damages Arising from the Foreign Exploitation of Domestic Infringements

Contrary to respondents' specious argument, the Second Circuit confirmed the availability of actual damages arising from the foreign exploitation of domestic

infringements in *Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.2d 67 (2d Cir. 1988). While the copyright damages in *Update Art* were awarded after the magistrate had granted summary judgment against the defendant as a discovery sanction, the Second Circuit discussed and affirmed the propriety of the court's award of actual damages arising from the exploitation *in Israel* of the plaintiff's works:

> As the applicability of American copyright laws over the Israeli newspapers depends on the occurrence of a predicate act in the United States, the geographic location of the illegal reproduction is crucial. If the illegal reproduction of the poster occurred in the United States and then was exported to Israel, the magistrate properly could include damages accruing from the Israeli newspapers. If, as appellants assert, this predicate act occurred in Israel, American copyright laws would have no application to the Israeli newspapers. Since a large portion of the damage award accrued from the Israeli newspapers, our determination on this issue affects substantially the final judgment.

Id. at 73.

Accordingly, the Second Circuit held that the predicate act of infringement in the United States permitted the plaintiff to recover all of its actual damages, even though "a large portion of the damage award accrued from the Israeli newspapers," *id.* at 73:

> The magistrate awarded Update damages of $475,406 plus interest by adding to Update's lost profits of $380,686 [i.e., Update's actual damages] that portion of appellants' income from the

> infringement that was not duplicative of Update's lost profits ($94,720).

Id. at 70. In other words, the court awarded the plaintiff its actual damages *plus* the portion of the defendants' profits that exceeded that amount. The Second Circuit concluded that such "[d]amages accruing from the illegal infringement in the Israeli newspapers properly were awarded to Update." *Id.* at 73.

Respondents' purposeful mischaracterization of *Update Art* is belied by their prior Petition for a Writ of Certiorari to this Court following *Reuters III*.[1] First, respondents argued that:

> The Second, and now the Ninth, Circuits would justify their extension of U.S. law extraterritorially to allegedly infringing foreign activities because an earlier "predicate act" (making a reproduction of plaintiff's work) occurred in the U.S. which "enabled" the allegedly foreign infringement.

Reuters' Cert. Pet. at 17.

Second, respondents also argued unsurprisingly that the source of the Second Circuit's "predicate act" theory was *Update Art*:

> The *Update Art* decision is the only source of the "predicate act" theory. [*Reuters III*] characterizes the *Update Art* decision as "permitting recovery

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[1] Repondents' November 20, 1998 Petition for a Writ of Certiorari in the Supreme Court of the United States ("Reuters' Cert. Pet."), Case No. 98-851, was denied on February 22, 1999. *Reuters Tel. Int'l, Ltd. v. Los Angeles News Service*, 525 U.S. 1141 (1999).

> of copyright *damages accruing abroad from illegal copying in the United States*." App. at 6-7 (emphasis added). But, *Update Art* was more candid; it expressly held that "*damages accruing from the illegal infringement in the Israeli newspapers* properly were awarded to *Update*." 843 F.2d at 73 (emphasis added). Thus, *Update* faced the fact that it was applying U.S. law to *allegedly infringing activities abroad*. *Update* sought to justify its judicially-created "exception" to the territoriality principle because the "predicate act in the United States, the geographical location of the [initial] illegal reproduction is crucial." *Ibid.*
>
> . . . .
>
> *Update's* "predicate act" exception finds no support in the statute or in the case law.

Id. at 21-22.

Respondents' new claim that *Update Art* "does not even address the issue raised by petitioner, and in no way conflicts with the decision below" (Opp. at 1), is therefore wrong and contradicts their earlier statements to this Court.[2] There is no question that the holdings of *Reuters IV* and *Update Art* are diametrically opposed and create a

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[2] Respondents' unqualified assertion that the Ninth Circuit "unanimously f[ound] that it did not need to hear oral argument" (Opp. at 5), is equally disingenuous. The Ninth Circuit dismissed as premature LANS' prior appeal of the district court's summary judgment ruling after full briefing and oral argument that took place on February 5, 2002. In LANS' subsequent appeal that resulted in *Reuters IV*, the parties merely resubmitted their prior briefs and the panel did not require a second hearing.

critical conflict between the Ninth and Second Circuits on this important issue. This case merits this Court's review.

B. *Sheldon v. Metro-Goldwyn Pictures Corp.* Does Not Limit a Copyright Holder's Recovery to an Infringer's Profits From the Overseas Exploitation of a Work Infringed in the United States

In addition to blatantly distorting the holding in *Update Art*, respondents also greatly exaggerate the holding of *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), in order to argue that *Sheldon* and *Reuters IV* are consistent. Respondents do so by erroneously claiming that *Sheldon* precludes a copyright holder from recovering actual damages flowing from the foreign exploitation of a domestically-infringed work. While *Sheldon* confirms that a copyright holder can recover a defendant's profits flowing from the foreign exploitation of a domestically-infringed work, it does not hold or even suggest that he or she is limited to a recovery of profits. *Sheldon* contains no discussion of actual damages and there is no indication that the plaintiff in *Sheldon* sought anything other than the defendant's profits. That is why Judge Silverman states in his dissent that "[i]n *Sheldon*, the question of what constitutes 'actual damages' wasn't an issue or even discussed. *Sheldon* was an appeal from an accounting. . . . 'Actual damages' had nothing to do with the case." App. at 15 (Silverman, J., dissenting).

Simply put, Respondents' (and the Ninth Circuit's) reliance on *Sheldon* is misplaced. *Sheldon* does not suggest in any way that LANS' recovery in this case is limited to respondents' profits.

II. *REUTERS IV* ALSO CONFLICTS WITH THE LAW OF THE SECOND AND SEVENTH CIRCUITS BY DENYING LANS A REASONABLE LICENSE FEE FOR RESPONDENTS' UNLAWFUL INFRINGEMENT OF ITS WORKS

Respondents do not explain at all how *Sheldon* or any other case would insulate them from liability for a reasonable license fee, or "the reasonable value of what [they] took." *Davis v. The Gap*, 246 F.3d 152, 161 (2d Cir. 2001). In the Second and Seventh Circuits, such damages are routinely recoverable as actual damages:

> If a copier of protected work, instead of obtaining permission and paying the fee, proceeds without permission and without compensating the owner, it seems entirely reasonable to conclude that the owner has suffered damages to the extent of the infringer's taking without paying what the owner was legally entitled to exact a fee for. We can see no reason why, as an abstract matter, the statutory term "actual damages" should not cover the owner's failure to obtain the market value of the fee the owner was entitled to charge for such use.

Id. at 165; *see also Rogers v. Koons*, 960 F.2d 301, 313 (2d Cir. 1992) ("[W]e think that a reasonable license fee for the use of [the infringed work] best approximates the market injury sustained by [plaintiff] as a result of [defendant's] misappropriation."); *Deltak v. Advanced Systems, Inc.*, 767 F.2d 357, 360-61 (7th Cir. 1985) ("The value of the infringer's use is a permissible basis for estimating actual damages.").

In addition to foreclosing the recovery of LANS' lost profits, *Reuters IV* also inexplicably prevents LANS from recovering a reasonable royalty for respondents' unauthorized use of its footage. At a bare minimum, respondents'

liability should include a reasonable license fee for its unauthorized copying of LANS' works in the United States and the distribution of those works to its foreign subscribers. *Reuters IV*'s implicit rejection of this type of recovery conflicts with established law in the Second and Seventh Circuits and also merits review and reversal of *Reuters IV* by this Court.

III. THE AVAILABILITY OF EXTRATERRITORIAL DAMAGES ARISING FROM DOMESTIC INFRINGEMENTS INVOLVES AN ISSUE OF EXTRAORDINARY IMPORTANCE

Respondents attempt to minimize the importance of the issue of the availability of actual damages flowing from the foreign exploitation of domestically-infringed works by labeling it "a very specific question in the narrow subset of copyright law related to damages" (Opp. at 12), and by contending that "the issue in this case arises infrequently . . . ." Opp. at 2. Both assertions are wrong.

First, LANS' petition does not raise a narrow issue relating to damages, but a broad question of whether the Copyright Act affords copyright holders any meaningful protection from individuals or entities who would steal their works and transmit them abroad for further reproduction and exploitation. Recent advances in technology, including the development of digital reproduction and the Internet, have made such piracy easy and inexpensive. Regardless of its profitability to the domestic infringer, the transmission abroad of copyrighted works infringed in the United States can be devastating to a copyright holder. If actual damages are unavailable in such circumstances, infringers can and will continue to duplicate copyrighted works in the United States and distribute them worldwide for further reproduction without fear of any meaningful copyright liability.

Second, there is no question that some variation of the factual situation underlying LANS' petition is taking place right now. It is well-understood that films, music, software, and other media are routinely copied in the United States and sent abroad for further reproduction, where the unauthorized copies are sold and markets for the works are seriously diminished if not destroyed. For example:

- Just one day after its December 5, 2003 release in theaters, the film *The Last Samurai* was available for download on the Internet "from a camcorder copy made in a U.S. theater on the day the movie premiered . . . . On Dec. 13, a TIME reporter bought *Samurai* from a stall along Taweewong Road in Phuket, Thailand." Amanda Ripley, *Hollywood Robbery; How Does a Hit Movie Go From the Free Market to the Black Market? TIME Retraces the Trail*, Time Magazine, January 26, 2004, at 56.

- "DVD bootlegs of '*The Lord of the Rings: The Two Towers*,' copied from Oscar screeners [copies of films given to Academy Awards voters], sold for about $3 in a store in Beijing – months before any official DVD release of the film. Other pirated films . . . included '*Chicago*' and '*Gangs of New York*' . . . '*Die Another Day*'; and . . . '*Catch Me if You Can*.'" Bruce Orwall, *Piracy Prevention: Studios Halt DVD Giveaways*, The Wall Street Journal, October 1, 2003, at A3.

- "Bootleg copies of '*Harry Potter and the Sorcerer's Stone*' appeared in China's capital within days of the movie's U.S. [theatrical] release, the latest in a flood of pirated films to reach Asia." Meg James & Anthony Kuhn, *'Potter' Plundered in Asia Movies*, L.A. Times, December 3, 2001, at C1.

The parade of horribles in LANS' petition (Pet. at 20) is not a work of fantasy, but a description of what United

States copyright holders face on a daily basis in today's world. The Copyright Act provides protection from such acts by allowing a copyright holder "to recover the *actual damages* suffered by him or her as a result of the infringement . . . ." 17 U.S.C. § 504(b) (emphasis added). *Reuters IV* erroneously strips copyright holders of this protection and leaves them extremely vulnerable to international piracy that begins with a predicate act of infringement in the United States. This extraordinarily important issue merits this Court's review.

CONCLUSION

In light of *Reuters IV*'s misinterpretation of the Copyright Act, the serious conflict between the Ninth and Second Circuits and the extraordinary importance of this copyright issue, LANS' petition for a writ of certiorari should be granted.

Respectfully submitted,

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